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1978		
Total taxable income		200,000
U.S. tax payable for 1978:		
U.S. tax before credit ([$200,000 × 0.22] + [$175,000 × 0.26])		89,500
Credit: Foreign income taxes of $20,000, but not to exceed overall limitation of $44,750 ($89,500 × $100,000/$200,000)		20,000
U.S. tax payable		69,500
1979		
Taxable income of N Corporation, consisting of income from U.S. sources		$25,000
U.S. tax before credit ($25,000 × 0.22)		5,500
Section 904(a)(2) overall limitation for 1979:		
Limitation for 1979 before increase under section 960(b)(1) ($5,500 × $0/$25,000)		0
Plus: Increase in overall limitation for 1979 under section 960(b)(1):		
Amount by which 1978 overall limitation was increased by reason of inclusion in N Corporation's gross income under section 951(a) for 1978 ($44,750 − [$41,500 × $0/$100,000])	$44,750	
Less: Foreign income taxes allowed as a credit for 1978 which were allowable solely by reason of such section 951(a) inclusion ($20,000 − $0)	20,000	
Balance	24,750	
But: Such balance not to exceed foreign income taxes paid by N Corporation for 1979 with respect to $80,000 distribution excluded under section 959(a)(1) ($10,000 tax withheld)	10,000	10,000
Overall limitation for 1979		10,000
U.S. tax payable for 1979:		
U.S. tax before credit ($25,000 × 0.22)		5,500
Credit: Foreign income taxes of $10,000, but not to exceed overall limitation of $10,000 for 1979		10,000
U.S. tax payable		None
Overpayment of tax for 1979:		
Increase in limitation under section 960(b)(1) for 1979		10,000
Less: Tax imposed for 1979 under chapter 1 of the Code		5,500
Excess treated as overpayment		4,500

[T.D. 7120, 36 FR 10859, June 4, 1971, as amended by T.D. 7649, 44 FR 60089, Oct. 18, 1979]

§ 1.960–7 Effective dates.

(a) *General rule.* Except as provided in paragraph (b), the rules contained in §§ 1.960–1—1.960–6 shall apply to taxable years of foreign corporations beginning after December 31, 1962, and taxable years of U.S. corporate shareholders within which or with which the taxable year of such foreign corporation ends.

(b) *Exception for less developed country corporations.* If for any taxable year beginning after December 31, 1962, and before January 1, 1976, a first-tier foreign corporation qualified as a less developed country corporation as defined in 26 CFR 1.902–2 revised as of April 1, 1978, the rules pertaining to less developed country corporations contained in 26 CFR 1.960–1—1.960–6 revised as of April 1, 1978, shall apply to any amounts required to be included in gross income under section 951 for such taxable year.

(c) *Third-tier credit.* The rules contained in §§ 1.960–1—1.960–6 shall apply to amounts included in the gross income of a domestic corporation under section 951 with respect to the earnings and profits of third-tier corporations (as defined in § 1.960–1) in taxable years beginning after December 31, 1976.

[T.D. 7649, 44 FR 60089, Oct. 18, 1979, as amended by T.D. 7843, 47 FR 50484, Nov. 8, 1982]

§ 1.961–1 Increase in basis of stock in controlled foreign corporations and of other property.

(a) *Increase in basis*—(1) *In general.* Except as provided in subparagraph (2) of this paragraph, the basis of a United States shareholder's—

(i) Stock in a controlled foreign corporation; or

(ii) Property (as defined in paragraph (b)(1) of this section) by reason of the ownership of which he is considered under section 958(a)(2) as owning stock in a controlled foreign corporation shall be increased under section 961(a), as of the last day in the taxable year of such corporation on which it is a controlled foreign corporation, by the amount required to be included with respect to such stock or such property in such shareholder's gross income under section 951(a) for his taxable year in which or with which such taxable year of such corporation ends. The